Second Session—Twenty-fourth Parliament
1959

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

BANKING AND COMMERCE

To whom was referred the Bill S-22, intituled: An Act to amend the Export Credits Insurance Act

The Honourable SALTER A. HAYDEN, *Chairman*

WEDNESDAY, JUNE 10th, 1959

WITNESS:

Mr. A. W. Thomas, Assistant General Manager of Export Credit Company.

REPORT OF THE COMMITTEE

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

21461-9—1

BANKING AND COMMERCE

The Honourable Salter Adrian Hayden, Chairman

The Honourable Senators

*Aseltine
Baird
Beaubien
Bois
Bouffard
Brunt
Burchill
Campbell
Connolly (*Ottawa West*)
Crerar
Croll
Davies
Dessureault
Emerson
Euler
Farquhar
Farris
Gershaw
Golding
Gouin
Haig
Hardy
Hayden
Horner
Howard
Hugessen
Isnor
Kinley
Lambert
Leonard
*Macdonald
McDonald
McKeen
McLean
Monette
Paterson
Pouliot
Power
Pratt
Quinn
Reid
Robertson
Roebuck
Taylor (*Norfolk*)
Thorvaldson
Turgeon
Vaillancourt
Vien
Wall
White
Wilson
Woodrow—50.

**Ex officio member.*

(Quorum 9)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate for Wednesday, May 27th, 1959.

Pursuant to the Order of the Day, the Honourable Senator Methot moved, seconded by the Honourable Senator Monette, that the Bill S-22, intituled: "An Act to amend the Export Credits Insurance Act", be read the second time.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Methot moved, seconded by the Honourable Senator Monette, that the Bill be referred to the Standing Committee on Banking and Commerce.

The question being put on the motion, it was—

Resolved in the affirmative.

J. F. MACNEILL,
Clerk of the Senate.

21461-9—1½

REPORT OF THE COMMITTEE

WEDNESDAY, June 10, 1959

The Standing Committee on Banking and Commerce to whom was referred the Bill (S-22), intituled: "An Act to amend the Export Credits Insurance Act", have in obedience to the order of reference of May 27th, 1959, examined the said Bill and now report the same without any amendment.

All which is respectfully submitted.

SALTER A. HAYDEN,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, June 10th, 1959.

Pursuant to adjournment and notice the Standing Committee on Banking and Commerce met this day at 10.00 P.M.

Present: The Honourable Senators:—Hayden, Chairman; Aseltine, Bouffard, Brunt, Davies, Dessureault, Emerson, Farris, Gershaw, Golding, Hugessen, Isnor, Kinley, Leonard, Macdonald, McKeen, Monette, Pouliot, Pratt, Reid, Thorvaldson, Vaillancourt, Wall and Woodrow—24.

In attendance: Mr. E. R. Hopkins, Law Clerk and Parliamentary Counsel, and the Official Reporters of the Senate.

Bill S-22, An Act to amend the Export Credits Insurance Act, was read and considered clause by clause.

On motion of the Honourable Senator Brunt it was resolved to report recommending that authority be granted for the printing of 600 copies in English and 200 copies in French of the proceedings on the said Bill.

Mr. A. W. Thomas, Assistant General Manager of Export Credit Company, was heard in explanation of the Bill and was questioned.

It was resolved to report the Bill without any amendment.

At 10.30 P.M. the Committee adjourned to the call of the Chairman.

Attest.

A. FORTIER,
Clerk of the Committee.

THE SENATE

STANDING COMMITTEE ON BANKING AND COMMERCE

EVIDENCE

OTTAWA, Wednesday, June 10, 1959.

The Standing Committee on Banking and Commerce, to whom was referred Bill S-22, to amend the Export Credits Insurance Act, met this day at 10.00 p.m.

Senator HAYDEN in the Chair.

The CHAIRMAN: Gentlemen, we have Mr. A. W. Thomas, Assistant General Manager of the Export Credit Company, to tell us the chief purpose of the Export Credits Insurance Bill.

Mr. THOMAS: Mr. Chairman, I think as all you gentlemen know we are in the insurance business. We insure exporters against nonpayment under policy of insurance for goods exported from Canada. The policy of insurance is subjected to terms and conditions and to a co-insurance which is normally not in excess of 85 per cent of any loss which might be suffered by the exporter from his shipment of goods to an overseas buyer.

In some cases, particularly where a substantial project of capital equipment is involved, the exporter has reported that the banks have been somewhat reluctant in providing the necessary financing. That is often due to the term that the project may run, the deferred payment portion. It may run four or five years. It could be the amount involved. It could possibly be a position the bank could not take because of the foreign exchange; for example, the purchase price might call for U.S. dollars and the bank might not want to take the position of U.S. dollars for a four or five-year term.

The purpose of this bill is to amend the act to provide a facility for the corporation when authorized by the Governor in Council, so that it will be a Government responsibility to provide a direct and unconditional guarantee to the lenders, who could be the Canadian chartered banks or any other lender who would finance a Canadian exporter to the extent he required to produce goods for export, and where he would not get payment for possibly some extended term.

I think the substance of the bill is in this matter of guarantee. The responsibility is going to be taken by the Government and not by the corporation, for we are an insurance corporation. This is the real purpose behind the bill. Anything else is ancillary to the question of guarantees. In other words, the bill proposes that the Government could authorize us to purchase any guaranteed bill of exchange or to lend money or sell it.

Senator BRUNT: Could we go over the bill section by section?

Senator MACDONALD: I would like to ask a few general questions.

The CHAIRMAN: I think the chief purpose, as the witness has stated, is to extend the scope of the operation but only where the Government authorizes you to do so. That authority is in the statute now. We were told by Mr. Aikens when he was here that you have operated to some extent, even without this amending bill, in covering transactions and that you have lost little if any money in doing so. This bill is to add something further by way of guaranteeing payment of negotiable instruments so that the foreign buyer of the goods

may go to the Canadian seller, and the corporation would guarantee to the extent that the Canadian seller would be able to cash or negotiate the instrument in Canada, isn't that right?

Mr. THOMAS: That probably is right except the intent is to guarantee negotiable paper, which would be in the hands of the lenders, who would be the chartered banks normally.

The CHAIRMAN: You have to start with the basis of the transaction. That is, there is a foreign buyer and a Canadian seller and the foreign buyer gives something to the Canadian seller which would be negotiable after a fashion of some kind or other, but it is much more negotiable if the corporation guarantees it.

Senator KINLEY: Give a note?

The CHAIRMAN: It could be a note.

Senator PRATT: Do you mean to say that apart from insurance you are setting up financial facilities for these interests?

Mr. THOMAS: No. We will only administer this part of the act on behalf of the Government who would authorize us to do it. The intent is not to finance the export transaction. The exporter would still have to arrange his own financing with any lender who would lend him the money he requires.

The CHAIRMAN: Just following that through, if the Canadian seller accepts an order from the foreign buyer the Canadian seller is going to somehow or other get something from the foreign buyer that he can use for credit purposes in Canada. True, he may go to the bank and borrow if the collateral is proper, but he can borrow a lot faster if he has your guarantee.

Mr. THOMAS: The intent is to guarantee the paper, as yau say. We can do that in a number of ways. We can do it by endorsement or by a letter to the lender of the money. I might just mention that the guarantee would not become effective until the goods had been delivered to the foreign buyer and accepted by him. So that there is generally an extended interval of a production period which we call the pre-shipment period. It extends anywhere from a few months to possibly two or three years before the goods are actually delivered to the foreign power and accepted by it.

Senator KINLEY: In the meantime the goods are insured?

Mr. THOMAS: In the meantime the intent would be to issue a policy of insurance to cover the pre-shipment period, and the guarantee would take effect once the goods had been accepted by the foreign power.

Senator MACDONALD: You will continue to carry on your operation as an insurer?

Mr. THOMAS: Oh yes. This part of the bill will only apply to capital goods projects, which are few and far between.

Senator MACDONALD: Did I understand you to say when goods are shipped from Canada they are insured by you?

Mr. THOMAS: Now.

Senator MACDONALD: And they will continue to be insured by you until they are delivered in the foreign country, and until the vendor gets the paper, a note or some security for payment?

Mr. THOMAS: That is arranged at the time the contract of sale is entered into.

Senator MACDONALD: Under your insurance at the present time I understood you to say that you just cover up to 85 per cent of the invoice.

Mr. THOMAS: Effectively, we pay 85 per cent of the loss.

Senator MACDONALD: What about the new arrangement? If the transaction is completed in the foreign country, and the vendor gets a note, will you guarantee 100 per cent or just 85 per cent?

Mr. THOMAS: The intention is to guarantee 100 per cent.

Senator MACDONALD: Is there anything in the act that requires you to insure just up to 85 per cent?

Mr. THOMAS: No.

Senator MACDONALD: But your practice has been up to 85 per cent?

Mr. THOMAS: That is the general global practice.

Senator MACDONALD: And now you are going farther?

Mr. THOMAS: On this guarantee.

Senator MACDONALD: You are going to guarantee up to 100 per cent?

Mr. THOMAS: Yes, but this is to cover capital goods only. There would be an administrative limit established which would be to the order of a quarter of a million.

The CHAIRMAN: Where does it say "capital goods"?

Mr. THOMAS: It doesn't. That is administrative.

Senator FARRIS: What is your protection on that guarantee?

Mr. THOMAS: There is no protection except the bill of exchange which we guarantee.

Senator FARRIS: What is your inducement for doing it?

Mr. THOMAS: Once we accept an insurance policy, or issue an insurance policy, to cover an export transaction, we are taking the risk that the buyer will pay. If he does not pay, we will have to pay. This merely extends the facilities of the guarantee up to 100 per cent of the paper without any terms or conditions attached to it. That will be given to the bank—we hope that the bank will take this unconditional guarantee, will buy the paper from the exporter without recourse, so that the exporter can get it out of his accounts receivable.

Senator METHOT: Are any of the goods refused as not being good?

Mr. THOMAS: No; we would not have to pay.

Senator METHOT: Even if you have guaranteed the bank?

Mr. THOMAS: The guarantee is not effective until the buyer accepts delivery of the goods.

Senator KINLEY: You give 85 per cent of the sales price?

Mr. THOMAS: We pay 85 per cent of any loss. It may be only half the sale price, depending on what he loses.

Senator MACDONALD: He is an insurer with you to the extent of 15 per cent?

Mr. THOMAS: The exporter is a co-insurer to the extent of 15 per cent.

Senator MACDONALD: Under this arrangement you are going to assume the total risk, I gather?

Mr. THOMAS: I believe that is intent.

The CHAIRMAN: The idea is to encourage more export business by giving this financing, and hoping that you will never be called upon to meet the guarantee.

Senator FARRIS: What is the legislation to further this proposal?

Senator BRUNT: Let us get down to the bill and see what we are asked to do.

Senator WALL: May I ask a general question? Is this an additional risk? Senator Macdonald has pointed out one factor of it, that there is a risk element in the insurance. Is there some calculation of the additional element of risk, and is this additional risk going to be paid for?

Mr. THOMAS: It will be charged for; I anticipate it would be to the order of 1 per cent.

Senator PRATT: Because of the long-term nature of the sale?

Mr. THOMAS: It would take up the additional risk of 15 per cent which the exporter would be carrying under his policy, and which the bank would be carrying—

Senator PRATT: You are referring to the capital goods type of sale?

Mr. THOMAS: Yes.

Senator PRATT: Which is different altogether from your general operation of insurance?

Mr. THOMAS: The general operation on consumer goods involves no problem about financing. It is short-term.

Senator WALL: Has this additional risk been calculated? Would it be another 18 per cent or another 20 per cent?

Mr. THOMAS: Under section 21 we have not paid a loss.

Senator MACDONALD: Let me ask this question: I am an exporter, and I sell goods to the value of $100,000 to a purchaser in a foreign country, and receive for it a note for $100,000. Can I take that note to your corporation and get the $100,000?

Mr. THOMAS: No sir.

Senator MACDONALD: Under the provisions of this bill, can I do it?

Mr. THOMAS: You could if this bill were passed; you could if we would take it.

Senator MACDONALD: That is the purpose of the bill, I take it. As an exporter I would not have to go through the bank.

Mr. THOMAS: Generally he does.

Senator MACDONALD: But according to the terms he does not have to.

Mr. THOMAS: That is true. Incidentally, I may say that there could be a case—I have not run into one in my 14 years experience—where an exporter could finance the production of goods over a relatively short period of time, and then come to the corporation and ask for the guarantee. But the practice has been that the exporter company in many cases—and this involves substantial deals, running into many millions of dollars—have had difficulties with the banks, in getting financing. So I don't think there would be any demand for the exporter to come directly to us.

Senator MACDONALD: One more general question: is this going to enlarge the capital sum?

Mr. THOMAS: No.

The CHAIRMAN: It is limited at present by the statute.

Mr. THOMAS: To $200 million.

The CHAIRMAN: And no extra money is being provided?

Senator WOODROW: Is that $200 million the full extent of the government guarantee at any and all times?

Mr. THOMAS: It is the maximum liability which the corporation can assume under section 21 and the proposed new section.

Senator WOODROW: And that includes the total amount of the Government guarantee?

Mr. THOMAS: Precisely.

The CHAIRMAN: Shall we deal with the bill section by section?

Section 1 would delete the Governor of the Bank of Canada as a member of the Export Credits Insurance Corporation.

Senator BRUNT: Is anyone being substituted in his place?

Mr. THOMAS: The Governor of the Bank of Canada has asked to be relieved of his duties because of other commitments, and also he feels there would be a certain conflict that could arise in his duties as Governor of the Bank of Canada with the banks themselves.

Senator BRUNT: All I want to know is, has anybody been named in his place?

The CHAIRMAN: In a later section the board of Directors is increased by one.

Section 1, carried.

Section 2 is only a broadening of the language of section 4 to cover this new type of extended businesss under section 21.

Some SENATORS: Carried.

The CHAIRMAN: Section 3 of the bill increases the directors from four to five, and also deletes any reference to the Governor of the Bank of Canada, where it occurs.

Some SENATORS: Carried.

The CHAIRMAN: Clause 4 repeals certain subsections of section 21. Section 21 is the section which authorizes this corporation to act on the direction of the Government.

Senator MÉTHOT: They are included?

The CHAIRMAN: They have replaced them.

Section 5 contains certain definitions; and you will note the power to guarantee, which is in general language. It says (2) When authorized by the Governor in Council the corporation may . . . That is under subsection 2, which is subsection 2 of the new section 21 that is being created by section 5 of the bill. It says,

> When authorized by the Governor in Council the corporation may guarantee, by an appropriate endorsement or otherwise, the payment of an instrument given by an importer to an exporter or to the nominee of an exporter under or in respect of an export transaction entered into between the importer and the exporter.

Senator KINLEY: Every individual transaction must be brought before the Governor in Council?

Mr. THOMAS: That is correct. There are not very many. This year to date we have only done two. But we hope we will do more with this facility.

The CHAIRMAN: This is as safeguard as it can be. If the Governor in Council authorizes them then it is their risk.

Senator ASELTINE: How much do these two amount to?

Mr. THOMAS: They were relatively small, probably in total a million dollars.

Senator BRUNT: A million? What is a million?

Senator KINLEY: Have you got a ceiling that you can use without reference to the Governor in Council?

Mr. THOMAS: Not under this bill.

Senator KINLEY: Can you do that under any other legislation?

Mr. THOMAS: Not paper, but we can insure.

Senator MACDONALD: You can purchase a guaranteed instrument?

Senator KINLEY: It is only intended for big amounts?

Mr. THOMAS: Precisely.

The CHAIRMAN: Shall this section 5 carry?

Carried.

The CHAIRMAN: We have a new section 21B created by this section 5, dealing with the limit of liability under a contract and guarantees which shall not exceed $200 million.

Senator WALL: Mr. Chairman, what is the sum total of liability that the export credit corporation can take on?

Mr. THOMAS: We have a limit there of $200 million on insurance. It is $400 million altogether.

Senator PRATT: What is the ordinary limit in which you operate? You say you have a limit of $200 million. How far do you go in your insurance?

Mr. THOMAS: Under our own insurance, in an individual transaction? Well normally we do not like to have about five million out in any one country at any one time, particularly long-term stuff, but short-term stuff we do not mind because it is being turned over rapidly.

Senator PRATT: But the sum total of your insurance ordinarily would amount to what?

Mr. THOMAS: Since we have started we have placed $700 million of insured exports, about one-third of which have been insured under section 21.

Senator PRATT: Over how long a period?

Mr. THOMAS: Fourteen years.

Senator MACDONALD: Do the insurance contracts have to get the approval of the Governor in Council?

Mr. THOMAS: No, sir, only under section 21.

Senator BRUNT: Have you any limit that would limit the amount of any one policy?

Mr. THOMAS: Not by law.

Senator BRUNT: In practice?

Mr. THOMAS: In practice, as I mentioned, we do not like to go over $5 million in any one country, at any one time.

Senator BRUNT: That could be in one policy?

Mr. THOMAS: Yes, but normally it is not.

Senator KINLEY: Have you made any profit in your operations?

Mr. THOMAS: In the 14 years we have made an operating profit of $207,000.

Senator PRATT: Is that profit taxed?

Mr. THOMAS: We are subject to tax but we do have it set out that they have agreed to allow us to build up an underwriting reserve of $5 million, but once we exceed $5 million unless we can get the Government to bump it up to $10 million we will be suject to tax.

Senator PRATT: Why cannot you use that profit to reduce your premiums and encourage the export trade?

Mr. THOMAS: There has been no complaint about our premiums. We hear a lot of talk but it is not based on fact. Our premium rate has averaged, including the substantial long-term contracts, just over one per cent; in one short-time business it is three-quarters of one per cent.

Senator BOUFFARD: Have you made any capital losses?

Mr. THOMAS: Irrecoverable losses? We have written off in our 14 years $250,000 as irrecoverable. We have a total of about $3 million. We have written off $250,000, and about 2.5 million is in blocked foreign currency in foreign countries.

Senator BRUNT: How much is in Turkey?

Mr. THOMAS: There are 2,800,000 U.S. dollars. We have paid $2.5 million Canadian.

The CHAIRMAN: I would like to have a motion to print 600 and 200 copies of our proceedings in English and French respectively.

Senator BRUNT: I will move that motion.

Senator KINLEY: Who do these 600 copies go to?

The CHAIRMAN: The same distribution as we have for *Hansard*. That does not leave many over.

Senator WALL: Mr. Chairman, I did not hear the witness reply as to the amount of contracts outstanding under section 21A. I think we sold $60 million or $50 million worth of aeroplanes. Where is that?

Mr. THOMAS: Those contracts have not been signed as yet and the orders in council have not been issued as yet.

Senator PRATT: How many exporters are there now using your insurance facilities?

Mr. THOMAS: We have 229 policies current.

Senator PRATT: Some time ago there were 3,000 exporters in Canada.

Mr. THOMAS: Yes, but not active. A great number of those exporters do business with the United States and we do not insure normally the United States transactions. There are private credit insurers and we do not compete with them.

The CHAIRMAN: Shall the section carry?

Carried.

Shall the bill be reported without amendment?

Carried.

The committee adjourned.